AUSTRALIAN INDUSTRY GROUP

PCI AUSTRALIAN
PERFORMANCE OF CONSTRUCTION INDEX®

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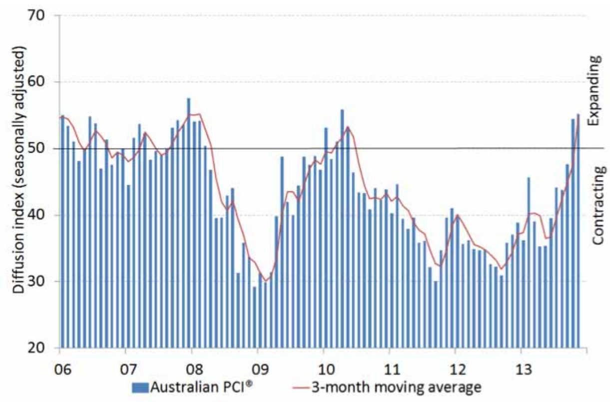
CONSTRUCTION CONTINUES TO EXPAND IN NOV

Australian PCI®	UK PCI	Germany PCI	Ireland PCI
Nov 2013: **55.2** ↑	Oct 2013: **59.4**↑	Oct 2013: **52.6** ↑	Oct 2013: **59.4** ↑

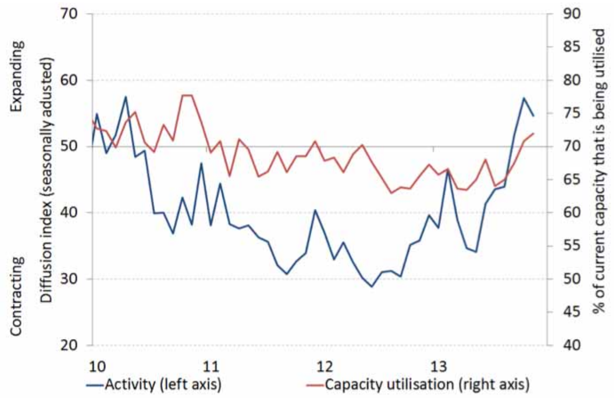
KEY FINDINGS

- The national construction industry maintained its forward momentum in November, expanding for a second consecutive month and at a slightly faster pace than in October. Conditions were boosted by a strengthening in new orders (which increased at their highest rate in almost eight years) and an upturn in deliveries from suppliers. Activity also continued to grow, despite the pace of increase moderating from October's 3½ year high.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Australian Performance of Construction Index **(Australian PCI®)** increased by 0.8 points in November to 55.2. This was above the critical 50 points level (that separates expansion from contraction) and signalled the industry's strongest performance since April 2010 (55.8).
- Growth in activity was again broad-based across all four major sectors of the industry. House building was the strongest performing sector, although its rate of expansion slipped slightly from the eight-year survey high level reached in the previous month. Activity in the apartment building sector also moderated after a solid upturn in October. Engineering construction expanded at a marginal and broadly unchanged rate while commercial construction activity edged slightly higher in the month.
- Businesses generally noted that market conditions were strengthening in response to higher levels of demand. This was being reflected in increased tender opportunities with respondents also indicating further success in the securing of contracts. House builders reported that customer enquiries had been sustained at high levels and that activity was continuing to draw support from solid investor activity. Impediments such as tight credit conditions and a lack of public sector tenders were cited as the main constraints on activity.



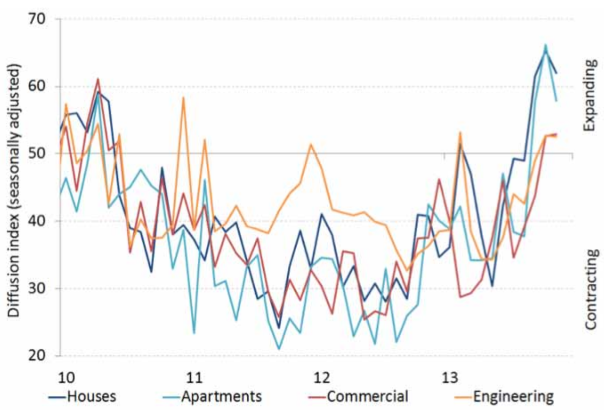
CONSTRUCTION ACTIVITY AND CAPACITY

- In seasonally adjusted terms, the activity sub-index registered 54.6 in November.
- This was 2.7 points below the level in the previous month, signalling a slower pace of growth in activity than in October. However, underlining the recent improvement seen in industry conditions, it represented the second highest activity reading since April 2010.
- The continued growth in activity was supported by a third consecutive month of expansion in new orders, with growth in incoming business reported in November across all four major industry sectors.
- The rate of capacity utilisation (not seasonally adjusted) rose from 70.8% in October 2013 to 72.0%, the highest rate since December 2010.



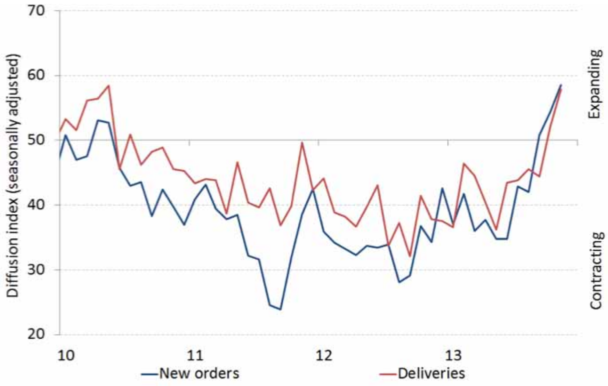
ACTIVITY BY SECTOR

- House building conditions continued to expand in line with the improving trend seen in new orders over the past six months. However, the sector's rate of growth moderated slightly with the activity sub-index declining by 3.3 points to 62.0 in November. Nevertheless, this was the second highest activity reading for the sector in the eight year history of the survey.
- Apartment building activity also increased at a slower pace in November. Reflecting the volatility of apartment building conditions, the sector's sub-index fell by 8.3 points to 57.9, reversing October's increase. However, it was only the third recorded expansion in the apartment building sub-index since April 2010 and the third highest reading in eight years. Respondents continued to note solid levels of investor activity.
- Commercial construction expanded at a marginal rate for a second consecutive month. The sector's sub-index increased by 0.3 points in November to 52.9, an encouraging development in the context of the protracted period of decline from July 2010 to September 2013. Despite the improvement, reports from respondents continue to suggest patchy conditions across the sector.
- Continued growth was also signalled for engineering construction in November with a sub-index reading of 52.5. This was just 0.2 points below the level of the previous month, indicating a broadly unchanged rate of increase.



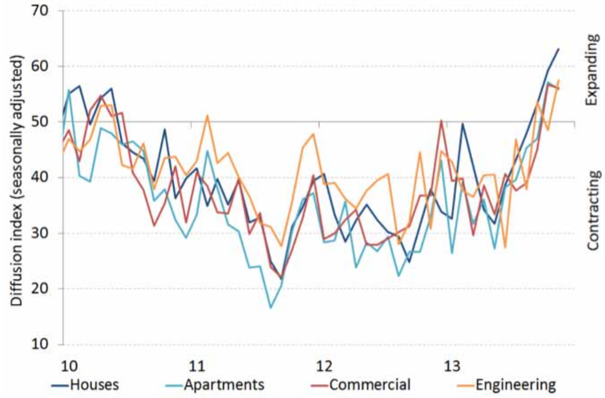
NEW ORDERS AND DELIVERIES

- New orders (seasonally adjusted) expanded in November, building on the improvement seen over the previous two months.
- The new orders index registered 58.5 in November. This was a rise of 4.2 points from the previous month and the highest reading for the new orders sub-index since January 2006.
- This result reflected expansions in new orders on a broad industry front, with readings for the engineering construction and house building sectors the highest since December 2007 and September 2009, respectively.
- Consistent with the further improvement in aggregate demand, deliveries of inputs from suppliers expanded at a faster rate with the supplier delivery index increasing by 5.9 points in November to 57.9.



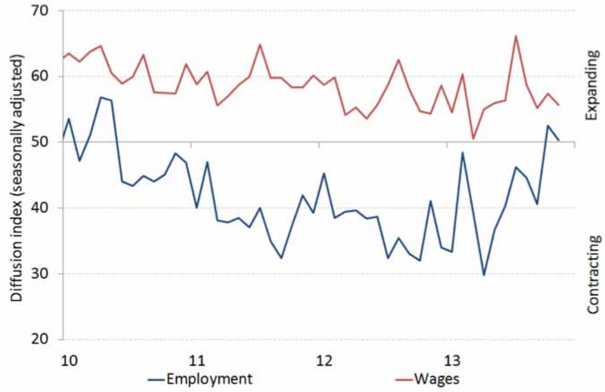
NEW ORDERS BY SECTOR

- New orders in the house building sector increased at a higher rate in November with the sub-index rising by 3.9 points in the month to 63.1, continuing an improving trend evident since mid-year. It was also the strongest rise in the housing new orders sub-index in four years and is further evidence that low interest rates, improvements in rental yields and rising house prices are supporting a lift in housing demand.
- In apartment construction, the new orders sub-index fell by 1.2 points to 55.9. Although this signalled a moderation in growth, it was only the second expansion since January 2010 and a marked improvement on the recent low point (27.2) recorded six months ago in May.
- For the commercial construction sector, new orders increased at a slightly slower pace, falling by 0.6 points to 56.1. Nevertheless, it was the only the second expansion recorded this year and is a likely flow-on effect from the improvement (albeit moderate) in approvals in 2013.
- In the engineering construction sector, the new orders sub-index rose by 9.0 points to 57.5. This was the highest rate of increase in almost six years with respondents noting a pick-up in projects moving through to the construction stage.



EMPLOYMENT AND WAGES

- Employment increased in November for a second consecutive month, although the rate of increase was marginal.
- The employment sub-index registered 50.3 in November, a decrease of 2.2 points from the previous month.
- This suggests that the recent improvement in industry conditions is supporting a stabilisation of employment levels and is yet to translate into firmer job creation.
- Growth in wages continued in November, albeit at a slightly slower rate than in the previous month, with the wages sub-index decreasing by 1.7 points to 55.7.



INPUT COSTS AND SELLING PRICES

- Input price inflation remained elevated, despite some moderation in November. The input costs sub-index decreased by 0.8 points in the month to 71.3.
- Reflecting the intensely competitive market environment, selling prices declined for the 37th consecutive month.
- Moreover, the rate of contraction in selling prices was steeper in the month with the sub-index falling by 4.0 points to 44.9.
- These results continue to demonstrate that pressures on profit margins remain strong amid rising cost burdens and a strongly competitive pricing environment.

	Index this month	Change from last month	12 month average
Australian PCI®	**55.2**	**+0.8**	**42.9**
Activity	54.6	-2.7	43.7
Houses	62.0	-3.3	47.2
Apartments	57.9	-8.3	44.1
Commercial	52.9	+0.3	40.2
Engineering	52.5	-0.2	43.0

	Index this month	Change from last month	12 month average
New Orders	58.5	+4.2	**42.8**
Employment	50.3	-2.2	41.3
Deliveries	57.9	+5.9	44.1
Input Prices	71.3	-0.8	69.1
Selling Prices	44.9	-4.0	38.2
Wages	55.7	-1.7	57.0
Capacity Utilisation (%)	72.0	+1.2	66.6

What is the Australian PCI®? The Performance of Construction Index **(Australian PCI®)** in conjunction with the Housing Industry Association is a seasonally adjusted national composite index based on the diffusion indexes for activity, orders/new business, deliveries and employment with varying weights. An **Australian PCI®** reading above 50 points indicates construction activity is generally expanding; below 50, that it is declining. The distance from 50 is indicative of the strength of the expansion or decline.
For further economic analysis and information from the Australian Industry Group, visit http://www.aigroup.com.au/economics.
For further information on international PCI data, visit http://www.markiteconomics.com or http://www.cipsa.com.au.